

# **Northwest Ottawa Water Treatment Plant**

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## **Financial Statements**

**Years Ended June 30, 2008 and 2007**

# Northwest Ottawa Water Treatment Plant

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November 1, 2008

Honorable Mayor and City Council  
Northwest Ottawa Water System Administrative Committee

It is with great pleasure that we present the Northwest Ottawa Water System (NOWS) Financial Statements for the fiscal year ended June 30, 2008.

NOWS is a joint venture of Northwest Ottawa area local units of government to provide water treatment services for their respective communities. As the City of Grand Haven, by contract, is the fiscal agent for NOWS, this report has been prepared by City Administration, particularly the Finance Office. City Administration holds full responsibility for the completeness and accuracy for all statements, schedules, notes and analysis herein. To provide a reasonable basis for making these representations, City Administration has maintained a system of internal controls to protect NOWS assets from theft, loss, or misuse and to compile reliable information for the presentation of our financial statements in conformity with generally accepted accounting principles. The cost of internal controls should not exceed the benefits received; therefore the internal controls have been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. As City Administration, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

### **The Reporting Entity**

NOWS was established March 1, 1988, through a joint venture agreement between the City of Grand Haven, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake to provide regional water treatment services. The Village of Spring Lake joined NOWS on April 24, 1992. In 1986, the current water treatment plant was built. Over the years the plant has been upgraded and modified to its current rated capacity of 15.5 million gallons per day. It presently operates at an average capacity of 50% during the majority of the year and at 80% capacity during the summer. In 1991, the north intake bed and pumping station was built. In 2005, the south intake bed was repaired after the initial project failed to operate properly. The City's Ranney Wells and Crows Foot intakes were dismantled in 2002, due to high maintenance and poor production. NOWS presently serves a population of approximately 40,000.

The City of Grand Haven provides contractual management and financial administration under contractual agreement to NOWS and to the following organizations:

Grand Haven/Spring Lake Sewer Authority, a separate governmental entity providing wastewater treatment services, and,  
Ottawa County Central Dispatch Authority, a component unit of Ottawa County providing "911" emergency dispatch services.

The financial reports of these entities as well as the City of Grand Haven are reported elsewhere and are not included here.

## **Budgeting and Financial Planning**

As part of the City's financial planning process, the NOWS Administrative Committee adopts an annual budget including a five year Capital Improvement Plan. These two documents address the Administrative Committee's strategy to improve water treatment operations and maintain the water plant. The budget document provides the financial framework for planning and control, as well as defining NOWS efforts for the future. The Capital Improvement Plan provides the Administrative Committee and staff with a strategy for future major capital items and related financial resources that will be required over the next five years to implement the Administrative Committee vision.

The budget process begins in late fall with a goal-setting session. The Water Plant Manager, the Grand Haven City Manager, Grand Haven Director of Public Works and Finance Director draft the budget on a line item basis, considering capital and operational priorities separately and combining both into a preliminary budget document. The NOWS Administrative Committee adopts the budget on a whole fund basis, which is included in the overall City of Grand Haven budget document for ease of public review.

After the close of the fiscal year, the annual Financial Statements are prepared to report on the financial condition of NOWS and the fiscal results of its operations. Included in the report are comparisons of actual revenues and expenditures of the audit year and the prior year.

## **Economic Condition and Outlook**

The current state economic conditions continue to present employment challenges for displaced employees and the local economy as a whole. Economic forecasts indicate a continuation of challenging conditions for 2008 and beyond in Michigan, some estimates indicating at least a four year cycle until improvements occur. Keys to these forecasts are reductions in auto and furniture industry jobs and capital plans and a continuing retrenching in Michigan's manufacturing economy. Losses of Eagle Ottawa Leather operations in November, 2007 and the closing of the Magna Donnelly division plant point to continuing economic stress locally.

NOWS has noted a continuing increase in water treatment demand from its local municipal customers. The south intake and the remodeled pump station were reconstructed under Ottawa County Public Utilities direction and efforts to utilize this intake began in early winter 2005. The south intake was reconstructed later in 2005 as the initial construction failed to perform effectively. Litigation is ongoing regarding the construction. NOWS anticipates a future requirement for an additional infiltration bed intake system to match the increased pumping capacity for the proposed expanded 23.25 million gallon treatment facility. NOWS can receive additional water from water system interconnects and operating agreements with Muskegon and Grand Rapids water systems. NOWS notes that continuing population increases in the townships and future economic growth will provide increasing demand for water in the future.

### **2007-08 Initiatives:**

- Completed the installation of a new IP phone system and fiber communications line at the water plant and the lake pumping station.
- Completed the installation of a new chlorine residual in-line monitor.
- Evaluated high and low service pumps for repairs and upgrades.
- Completed water supply and water treatment alternatives evaluation.
- Begin the City's water distribution sampling program for the EPA's Stage 2 DBP Rule.
- Continue to investigate the Source Water Intake Protection Plan (SWIPP) through the Michigan's Clean Water Legacy Plan with possible funding through state and federal grants.

### **Future Initiatives:**

- Evaluate staff's additional responsibilities, number of operators and plant goals.
- Cross train prospective public works staff as water plant operators.
- Inspect and evaluate the Intake system.
- Begin the preliminary engineering for the water intake improvements and plant expansion project.
- Begin the renovation portion of the plant expansion project (estimated at \$4,500,000), which includes a new second raw water main, backwash tank and VFD pumps.

- Begin the 23.25 million gallon treatment facility expansion project (estimated at \$17,000,000) in the spring of 2009.

### **Reporting Model Format**

The objective of the Financial Statements of NOWS under GASB Statement 34 is to highlight the accountability of NOWS by providing useful information to a wide range of users. A few of the more significant reporting requirements include:

- This transmittal letter and the "Management Discussion and Analysis" (MD&A). These documents provide an in-depth review and discussion of the NOWS' financial position. GASB Statement 34 provides very specific guidance for topics that must be covered in the MD&A. Many of the key financial topics are covered by the MD&A which can be found immediately after the auditor's opinion letter.
- Consistent with the appropriate accounting basis for enterprise funds, NOWS statements are presented on a full accrual basis of accounting. The full accrual method addresses overall operating results and the financial position of the NOWS as an economic entity, as is done in the private sector.
- NOWS has only one operating fund, a proprietary fund.

The NOWS report is significantly less complex than other municipal reports due to the single fund included in the report and the proprietary fund format.

### **Independent Audit**

State statute and the various local unit charters require an annual financial audit by an independent certified public accountant. In May 2003, City Council selected the accounting firm of BDO Seidman, Certified Public Accountants, who provided auditing services for the first years of the engagement. In the summer of 2004, BDO Seidman sold its Muskegon office to its former BDO partners. Pridnia LaPres, PLLC provides the same auditing staff originally provided by BDO Seidman and at the same cost. The City Council of the City of Grand Haven has indicated that the City will seek proposals for auditing services for the next fiscal year under a policy of periodic proposal seeking to assure low cost, high quality auditing.

### **Acknowledgments**

The work of preparing the financial report has required the help and assistance of many people. The staff of the City of Grand Haven Finance and City Treasurer Departments in particular spent many hours working on this project. Katrina Robinson, Accounting Supervisor, deserves special thanks for her efforts in organizing and directing the audit preparation work.

Sincerely,

Patrick McGinnis  
City Manager and  
Chairman of the NOWS  
Administrative Committee  
616 847-4888  
pmcginnis@grandhaven.org

James P. Bonamy  
Finance Director  
City of Grand Haven  
616 935-3214  
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## **Independent Auditors' Report**

To the Members of the Administrative Committee  
Northwest Ottawa Water Treatment Plant  
Grand Haven, Michigan

We have audited the accompanying financial statements of the Northwest Ottawa Water Treatment Plant as of June 30, 2008 and 2007 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Northwest Ottawa Water Treatment Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Ottawa Water Treatment Plant as of June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

*Pridnia Lapres, PLLC*

October 27, 2008

**Northwest Ottawa Water Treatment Plant  
Management Discussion and Analysis  
June 30, 2008**

1) Financial Highlights

- a) The Northwest Ottawa Water System ("NOWS") operates a Treatment Plant Fund to account for costs of operation and maintenance of a joint purchase venture water treatment facility serving the following Northwest Ottawa communities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Charter Township of Grand Haven and the Township of Spring Lake and their end-user water customers.

The NOWS Fund ended the fiscal year in better financial position than the prior year and under budget. Overall debt was lower due annual principal payments.

- b) Business-type activities net assets increased from \$5,185,121 to \$5,815,344.
- c) Total operating expenses for business-type activities decreased from \$1,504,621 to \$1,431,325.

2) Overview of Financial Statements

a) Overall financial picture

The financial statements provide the NOWS financial position using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

i) Statements of Net Assets

The *Statements of Net Assets* provides information on assets, liabilities and the difference between assets and liabilities, which is called net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. A trend of increasing net assets is viewed as a sign of improving condition. The *Statements of Net Assets* is similar to a balance sheet in private sector accounting.

ii) Statements of Revenue, Expenses and Changes in Net Assets

The *Statements of Revenue, Expenses and Changes in Net Assets* reports the underlying causes of the change in net assets. All changes in net assets are reported as the change occurs and includes depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the *Statements of Net Assets*.

b) Notes to the Financial Statements

Immediately after the financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of NOWS.

3) Financial Analysis

a) Net Assets

The *Statements of Net Assets* provides an overview of NOWS assets, liabilities and net assets. As mentioned above, over time, this can provide a good indicator of fiscal health. A comparative analysis between the current report year and the prior year is herein presented.

On the next page is a summarized version of the *Statements of Net Assets*.

**Northwest Ottawa Water Treatment Plant  
Management Discussion and Analysis  
June 30, 2008**

**Net Assets**

<b>June 30,</b>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current and other assets	\$ 364,368	\$ 435,107
Capital and restricted assets	7,229,681	7,426,348
<b>Total Assets</b>	<b>\$7,594,049</b>	<b>\$7,861,455</b>
<b>Liabilities</b>		
Long-term debt	\$ 762,500	\$1,586,250
Other liabilities	1,016,205	1,090,084
<b>Total Liabilities</b>	<b>\$1,778,705</b>	<b>\$2,676,334</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$4,546,020	\$5,185,121
Unreserved	1,269,324	-
<b>Total Net Assets</b>	<b>\$5,815,344</b>	<b>\$5,185,121</b>

The total assets of NOWS are \$7,594,049 however, \$6,180,645 represents net investment in capital assets including infrastructure. Of the more liquid assets, \$1,049,036 is restricted. Total net assets increased by \$630,223 during the fiscal year.

b) **Changes in Net Assets**

Significant changes in net assets are shown in the table on the next page.



**Northwest Ottawa Water Treatment Plant  
Management Discussion and Analysis  
June 30, 2008**

**Changes in Net Assets**

<b>Years ended June 30,</b>	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Operating Revenue – Earned revenue	\$1,045,039	\$1,144,609
<b>Operating Expenses</b>		
Purchased water	81,355	113,551
Intake	275,781	278,100
Treatment	430,520	463,680
Administrative	263,307	276,578
Depreciation	380,362	372,712
<b>Total Operating Expenses</b>	<b>\$1,431,325</b>	<b>\$1,504,621</b>
<b>Non-Operating Revenue (Expenses)</b>		
Debt service charge	952,524	1,012,672
Capital replacement charge	132,910	141,303
Interest income on investments	42,326	46,221
Interest expense	(74,463)	(96,984)
Deferred charge on refunding	(41,250)	(41,250)
Non-operating grants - state	4,342	-
Other	120	83
<b>Total Non-Operating Revenue</b>	<b>\$1,016,509</b>	<b>\$1,062,045</b>
Changes in Net Assets	\$630,223	702,033
Net Assets, beginning of year	\$5,185,121	\$4,483,088
<b>Net Assets, end of year</b>	<b>\$5,815,344</b>	<b>\$5,185,121</b>

c) Business-type Activities – Highlights

The business-type activities had an increase in net assets of \$630,223 from revenues of \$2,177,261. The largest source of revenue was from earned revenue, \$1,045,039 or 47.99% of revenues for business-type activities.

4) Financial Analysis

NOWS had revenues of \$2,177,261, a decrease of \$167,627 from the prior fiscal year.

**Northwest Ottawa Water Treatment Plant  
Management Discussion and Analysis  
June 30, 2008**

5) Capital Assets and Debt Administration

a) Capital assets

NOWS has \$6,180,645 invested in capital assets net of depreciation. Capital assets include all purchases of assets that exceed \$1,000 and have an expected useful life greater than one year. Capital assets includes: land, land improvements, buildings, equipment, and utility systems such as water distribution lines. NOWS uses straight line depreciation for all depreciable assets. In FY2008, capital assets decreased by \$358,433 in business-type activities, primarily in depreciation.

b) More detailed information about changes in capital assets can be found in Note 3 of the footnotes.

6) Debt

a) Summary of debt

NOWS had \$1,710,000 in debt outstanding as of June 30, 2008.

b) Note 5 of the footnotes provides more detailed information on debt and other obligations

7) Economic Forecast

NOWS has one main source of revenue, water treatment utility charges. Utility sales are affected by the economy and can experience large swings of revenue from changes in weather conditions. Winter conditions produce less consumption. Increasing consumption is noted during the late spring, peaking in summer and declining in autumn. Additionally, in recent years, NOWS constructed a second intake bed and installed a connection with the Grand Rapids Water System to confirm the ability to meet anticipated future consumer demand. (Emergency interconnects with Norton Shores, Muskegon Heights and Grand Rapids water systems are also in place to ensure continuing service.) For the FY2008-09 budget, the NOWS Administrative Committee anticipates that sales will be roughly equal to FY2007-08 volumes.

8) Contacting the NOWS Financial Management Staff

The City of Grand Haven, by contract, provides fiscal and administrative services to NOWS. This financial report is designed to provide interested individuals including citizens, taxpayers, customers, investors and creditors, with a general overview of NOWS finances and to show NOWS Administrative Committee accountability for the money it receives. If you have questions about this report or need additional financial information, please contact us at 519 Washington Avenue, Grand Haven, MI 49417, or call or e-mail us as noted below:

Patrick McGinnis  
City Manager  
616 847-4888  
[pmcginnis@grandhaven.org](mailto:pmcginnis@grandhaven.org)

James P. Bonamy  
Finance Director  
616 847-4893  
[jbony@grandhaven.org](mailto:jbony@grandhaven.org)

<i>June 30,</i>	<b>2008</b>	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ <b>109,403</b>	\$ 50,559
Due from other governmental units	<b>192,355</b>	330,589
Inventories	<b>62,610</b>	53,959
Total Current Assets	<b>364,368</b>	435,107
<b>Long-Term Assets</b>		
Capital assets – net (Note 3)	<b>6,180,645</b>	6,539,078
Restricted assets (Note 4)	<b>1,049,036</b>	887,270
<b>Total Assets</b>	<b>\$ 7,594,049</b>	\$ 7,861,455

# Northwest Ottawa Water Treatment Plant

## Statements of Net Assets

<i>June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 69,662	\$ 96,050
Accrued and other liabilities	62,257	69,701
Due to other governmental units	2,670	28,377
Billing adjustment due to member units (Note 6)	9,491	5,164
Total Current Liabilities	<b>144,080</b>	199,292
<b>Current Liabilities Payable from Restricted Assets</b>		
(Note 4)	<b>872,125</b>	890,792
<b>Long-Term Debt</b> – Less current maturities (Note 5)	<b>762,500</b>	1,586,250
Total Liabilities	<b>1,778,705</b>	2,676,334
<b>Net Assets</b>		
Invested in capital assets, net of related debt	<b>4,546,020</b>	5,185,121
Unreserved	<b>1,269,324</b>	-
Total Net Assets	<b>5,815,344</b>	5,185,121
<b>Total Liabilities and Net Assets</b>	<b>\$ 7,594,049</b>	\$ 7,861,455

*See accompanying notes to financial statements.*

# Northwest Ottawa Water Treatment Plant

## Statements of Revenue, Expenses, and Changes in Net Assets

<i>Years ended June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Operating Revenue</b> – Earned revenue	<b>\$ 1,045,039</b>	<b>\$ 1,144,609</b>
<b>Operating Expenses</b>		
Purchased water	<b>81,355</b>	113,551
Intake	<b>275,781</b>	278,100
Treatment	<b>430,520</b>	463,680
Administrative	<b>263,307</b>	276,578
Depreciation	<b>380,362</b>	372,712
<b>Total Operating Expenses</b>	<b>1,431,325</b>	<b>1,504,621</b>
<b>Operating Loss</b>	<b>(386,286)</b>	<b>(360,012)</b>
<b>Non-Operating Revenue (Expense)</b>		
Debt service charge	<b>952,524</b>	1,012,672
Capital replacement charge	<b>132,910</b>	141,303
Interest income on investments	<b>42,326</b>	46,221
Interest expense	<b>(74,463)</b>	(96,984)
Deferred charge on refunding	<b>(41,250)</b>	(41,250)
Non-operating grants – state	<b>4,342</b>	-
Other	<b>120</b>	83
<b>Total Non-Operating Revenue</b>	<b>1,016,509</b>	<b>1,062,045</b>
<b>Changes in Net Assets</b>	<b>630,223</b>	<b>702,033</b>
<b>Net Assets</b> – Beginning of year	<b>5,185,121</b>	<b>4,483,088</b>
<b>Net Assets</b> – End of year	<b>\$ 5,815,344</b>	<b>\$ 5,185,121</b>

*See accompanying notes to financial statements.*

# Northwest Ottawa Water Treatment Plant

## Statements of Cash Flows

<i>Years ended June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities</b>		
Operating loss	\$ (386,286)	\$ (360,012)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation	380,362	372,712
Changes in assets and liabilities		
Due from other governmental units	138,234	(66,498)
Inventories	(8,651)	(7,113)
Accounts payable	(26,388)	34,790
Accrued and other liabilities	(7,444)	(7,502)
Due to other governmental units	(21,380)	(24,544)
Net Cash Provided by (Used for) Operating Activities	<b>68,447</b>	(58,167)
<b>Cash Flows from Non-Capital and Related Financing Activities</b>		
Proceeds from non-operating grants	4,342	-
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal and interest paid on long-term debt	(958,130)	(1,005,754)
Proceeds from debt service charge	1,003,069	994,561
Proceeds from capital replacement charge	132,910	141,303
Purchase of capital assets	(21,929)	(24,243)
Proceeds from other revenue	120	83
Net Cash Provided by Capital and Related Financing Activities	<b>156,040</b>	105,950
<b>Cash Flows from Investment Activities</b>		
Interest received on investments	42,326	46,221
<b>Net Increase in Cash and Cash Equivalents</b>	<b>271,155</b>	94,004
<b>Cash and Cash Equivalents – Beginning of year</b>	<b>692,600</b>	598,596
<b>Cash and Cash Equivalents – End of year</b>	<b>\$ 963,755</b>	\$ 692,600

*See accompanying notes to financial statements.*

# Northwest Ottawa Water Treatment Plant

## Statements of Cash Flows

<i>June 30,</i>	<b>2008</b>	<b>2007</b>
<b>Statements of Net Assets</b>		
<b>Classification of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 109,403	\$ 50,559
Restricted assets (Note 4)	854,352	642,041
Total	\$ 963,755	\$ 692,600

*See accompanying notes to financial statements.*

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

The Northwest Ottawa Water Treatment Plant (the “Plant”) was established for the purpose of constructing, owning, and operating a water treatment system for its participating municipalities: the City of Grand Haven, the Village of Spring Lake, the City of Ferrysburg, the Township of Spring Lake, and the Township of Grand Haven.

Under a contract executed in 1988, the City of Grand Haven (the “City”) is operating and maintaining the Plant. Monthly operating expenses are billed by the City to the constituent municipalities for their proportionate share of those expenses.

#### **Basis of Accounting**

The accrual basis of accounting is used in preparing the financial statements.

#### **Cash Equivalents**

For purposes of the statement of cash flows, the Plant considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

#### **Inventories**

Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

#### **Capital Assets**

Capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is computed on a straight-line method based on the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred.



# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

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Water plant, lake intakes, water mains, furniture and equipment are depreciated using the straight-line method over the following useful lives:

Water plant	30
Lake intakes	10-50
Water mains	50
Structures and equipment	33
Office furniture	5

## 2. Deposits

### Deposits

State statutes require that certificates of deposit, savings accounts and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation.

#### Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Plant's deposits might not be recovered. The Plant does not have a deposit policy for custodial credit risk. At June 30, 2008, \$863,755 of the Plant's bank balances of \$963,755 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized:	<u>\$ 863,755</u>
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### Investments

#### Interest Rate Risk

The Plant does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

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### Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty or bank, the Plant will not be able to recover the value of its investments that are in the possession of an outside party. The Plant was not exposed to custodial credit risk related to investments.

### Credit Risk

State statutes authorize the Plant to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by a state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The Plant had no investment policy that would further limit its investment choices.

### Concentration of Credit Risk

The Plant places no limit on the amount the Plant may invest in any one issuer.

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

### 3. Capital Assets      Capital assets consist of the following:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not depreciated				
Land	\$ 26,000	\$ -	\$ -	\$ 26,000
Capital assets being depreciated				
Water plant	8,065,142	-	-	8,065,142
Lake intakes	4,880,137	-	-	4,880,137
Water mains	694,274	12,364	-	706,638
Structures and equipment	111,853	9,565	-	121,418
Office furniture	14,928	-	-	14,928
	13,766,334	21,929	-	13,788,263
Accumulated depreciation				
Water plant	5,237,478	257,228	-	5,494,706
Lake intakes	1,560,436	98,349	-	1,658,785
Water mains	428,777	15,122	-	443,899
Structures and equipment	15,564	8,654	-	24,218
Office furniture	11,001	1,009	-	12,010
	7,253,256	380,362	-	7,633,618
Net Capital Assets Being Depreciated	6,513,078	(358,433)	-	6,154,645
<b>Net Capital Assets</b>	<b>\$ 6,539,078</b>	<b>\$(358,433)</b>	<b>\$ -</b>	<b>\$ 6,180,645</b>

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

### 4. Restricted Assets

Restricted assets consist of the following:

<i>June 30,</i>	<b>2008</b>	2007
Cash and cash equivalents (capital improvements)	\$ 559,577	\$ 431,551
Cash and cash equivalents (for repayment of debt)	294,775	210,490
Due from other governmental units (for repayment of debt)	194,684	245,229
Total Restricted Assets	1,049,036	887,270
Less current liabilities payable from restricted assets		
Current portion of long-term debt	(865,000)	(880,000)
Accrued interest on long-term debt	(7,125)	(10,792)
Total Current Liabilities Payable from Restricted Assets	(872,125)	(890,792)
Net Restricted Assets	\$ 176,911	\$ (3,522)

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

### 5. Long-Term Debt      Outstanding Debt

Long-term debt consists of the following:

<i>June 30,</i>	<b>2008</b>	<b>2007</b>
Contract payable to Ottawa County for 2.8% to 3.2% water treatment facility bonds – 1992 (refinanced – 2002, Series A)	<b>\$ 870,000</b>	\$ 1,360,000
Contract payable to Ottawa County for 2.8% to 3.2% intake bonds – 1989 (refinanced – 2002 Series B)	<b>840,000</b>	1,230,000
Less deferred charge on refunding	<b>(82,500)</b>	(123,750)
Total	<b>1,627,500</b>	2,466,250
Less current maturities	<b>(865,000)</b>	(880,000)
	<b>\$ 762,500</b>	\$ 1,586,250

### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2008, including both principal and interest, are as follows:

<i>Year ended June 30,</i>	<b>Principal</b>	<b>Interest</b>
2009	\$ 865,000	\$ 52,990
2010	845,000	27,040
Total	<b>\$ 1,710,000</b>	<b>\$ 80,030</b>

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

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### Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the years ended June 30, 2008 and 2007:

*Years ended June 30, 2008 and 2007*

Long-term debt – July 1, 2006	\$ 3,330,000
Debt retired	(905,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2007	2,466,250
Debt retired	(880,000)
Amortization of deferred charge	41,250
Long-term debt – June 30, 2008	\$ 1,627,500

### Debt Charges

The Plant receives a debt charge from participating communities for contracts payable to Ottawa County based on the volume of water sold to those communities. The Plant and the participating communities have pledged their full faith and credit on the contracts payable to Ottawa County.

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

### 6. Billing Adjustment Due to Governmental Units

The Plant bills its member governmental units for operations, debt, and capital replacement. Following is an analysis of the billing adjustment related to the operations of the Plant:

<i>Years ended June 30,</i>	<b>2008</b>	2007
Payments to communities		
Amounts billed for fiscal year prior to June 30	<b>\$ 1,054,530</b>	\$ 1,149,773
Amounts contractually allowed to collect as adjusted for actual expenses	<b>(1,045,039)</b>	(1,144,609)
Total due to member units	<b>\$ 9,491</b>	\$ 5,164

### 7. Working Capital

In accordance with the master agreement with the member governmental units, the Board of Directors of the Plant has agreed to maintain 5/24ths of the operating expenses, excluding depreciation, for working capital.

Excess working capital may be refunded to the member governmental units at the discretion of the Board. \$9,491 and \$5,164 in excess working capital was due to be refunded to the units at June 30, 2008 and 2007, respectively.

# Northwest Ottawa Water Treatment Plant

## Notes to Financial Statements

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### **8. Risk Management**

The Plant is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. As an affiliate of the City of Grand Haven, the Plant is partially uninsured for health claims and has purchased commercial insurance for coverage related to claims in excess of certain stop-loss limits. The Plant also participates in the Michigan Municipal League risk pool for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for health claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City of Grand Haven's Health Benefits Internal Service Funds.



Administrative Committee  
Northwest Ottawa Water Treatment Plant  
519 Washington Street  
Grand Haven, Michigan 49417

October 27, 2008

Dear Administrative Committee:

Professional standards require us to advise you of the following matters relating to our recently completed audit of the Northwest Ottawa Water Treatment Plant (the "Plant"), as of and for the year ended June 30, 2008. The matters discussed herein are those that we have noted as of October 27, 2008 and we have not updated our procedures regarding these matters since that date to the current date.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter to the City of Grand Haven dated May 19, 2008, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the Plant's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Overview of Planned Scope and Timing of the Audit**

A discussion was held on June 2, 2008 regarding the planned scope and timing of the audit, the intention of which was to assist those charged with governance in understanding better the consequences of our audit work on your oversight responsibilities along with assisting us in understanding better the Plant and its environment. The focus of this discussion included how the risks of material misstatement, whether due to error or fraud, would be addressed and on factors, rather than specific thresholds or amounts, that would impact materiality used in our planning and execution of the audit.

## **Significant Findings from the Audit**

### ***Management Judgments and Accounting Estimates***

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We have made tests of management's estimates and deemed them to be appropriate.

There were no material contingencies, as defined in FASB Statement No. 5, for which we had questions or concerns about the reasonableness of the accounting or the adequacy of the financial statement disclosure.

### ***Misstatements***

Professional standards require the auditor to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Additionally, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction.

During our audit, no material corrected misstatements or unrecorded misstatements were brought to the attention of management by us.

### ***Discussion about the Quality of Significant Accounting Practices***

In accordance with applicable auditing standards, a discussion was held regarding the quality of the Plant's significant accounting practices, which included the Plant's significant accounting practices, estimates, and financial statement disclosures.

### ***Adoption of a Change in Accounting Principle***

There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the Plant's financial statements.

***Disagreements with Management***

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the Plant's financial statements or the audit report. No such disagreements arose during the course of our audit.

***Consultation with Other Accountants***

There may be circumstances where the Plant considers consulting with other accountants about accounting and auditing matters. We are not aware of any consultations about accounting or auditing matters between management and other accountants. We are also not aware of opinions obtained by management from other accountants on the application of generally accepted accounting principles.

***Significant Issues Discussed with Management Prior to Our Retention***

Prior to our being retained as auditor for the current fiscal year, there were no significant accounting or other issues of concern discussed with management.

***Material Alternative Accounting Treatments Discussed with Management***

During the past year, there were no discussions with management concerning material alternative accounting treatments.

***Significant Difficulties Encountered in Performing the Audit***

There were no significant difficulties encountered during the course of the audit. All records and information requested by Pridnia LaPres, PLLC were freely available for inspection. Management and other personnel provided full cooperation.

***Representations Requested from Management***

Refer to the management representation letter that we have provided to those charged with governance.

***Other Issues Arising from the Audit that We Consider Significant and Relevant to Those Charged with Governance***

There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

***Other Material Written Communications with Management***

We have provided to those charged with governance copies of all material written communications that we prepared in connection with our annual audit.

**Other Information Included with the Audited Financial Statements**

As required by GASB 34, management has prepared certain required supplemental information for inclusion in the audited financial statements including the "Management Discussion and Analysis."

As outlined in our opinion, we have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**Internal Control Matters**

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

**Independence**

We are not aware of any circumstances or relationships that would impair our independence.

Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of those charged with governance and management of the Northwest Ottawa Treatment Plant and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

